

Service Area Plan

Department of the Treasury

Accounting and Trust Services (73213)

Service Area Background Information

Service Area Description

This service area provides statewide trust accounting and reporting services to Commonwealth agencies, institutions, and several of its debt-issuing authorities.

Products and services include:

- Accounting for and reporting of Commonwealth debt
- Accounting for and reporting of Commonwealth investments
- Payment of Commonwealth debt service
- Accounting for and reporting of Commonwealth bond and trust funds
- Accounting and reporting for the Virginia Public School Authority
- Preparation of annual financial statements for debt-issuing authorities staffed by Treasury including the Virginia College Building Authority, Virginia Public Building Authority, and Virginia Public School Authority
- Accounting and reporting, including the preparation of year-end financial data, for the Local Government Investment Pool and the Literary Fund
- Accounting for Treasury's risk management funds
- Administration of the Security for Public Deposits Act which protects Virginia public deposits held by banking institutions through the collateralization of securities
- Administration and safekeeping of the securities pledged by insurance companies transacting the business of insurance in Virginia
- Accounting and budgeting for Treasury and Treasury Board

Service Area Alignment to Mission

This service area directly aligns with the Department of the Treasury's mission of serving the Commonwealth by providing excellent financial management and outstanding customer service.

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Service Area Statutory Authority

Code of Virginia §2.2-1807 states that the State Treasurer shall be charged with the custody of all Commonwealth funds and other funds held in a fiduciary capacity; §§2.2-4500 through §2.2-4501 mandates that the State Treasurer shall receive, disburse, invest and account for funds

Code of Virginia §2.2-1806 jointly authorizes and empowers the Governor and State Treasurer to invest excess funds

Code of Virginia §23-21 and various bond resolutions and covenants with bondholders designate the State Treasurer as trustee to invest, account and maintain 9(c) and various 9(d) debt

The enabling legislation creating various debt-issuing authorities of the Commonwealth such as the VCBA, VPBA, and VPSA requires the preparation of an annual report

Code of Virginia §2.2-4602, creating the Local Government Investment Pool, requires the State Treasurer to provide for the investment accounting for the funds received from local officials

Code of Virginia §23-20.1 authorizes the replacement of a lost Commonwealth bond or coupon by the State Treasurer

The Security for Public Deposits Act under Chapter 44, Title 2.2 of the Code of Virginia provides for a uniform method to secure Virginia public deposits held by financial institutions through the pledge of securities as collateral by the financial institutions. Treasury administers the SPDA on behalf of the Commonwealth Treasury Board

Code of Virginia, Article 7, §38.2-1045 through §38.2-1058 requires insurance companies that do business in Virginia to deposit securities with the State Treasurer to be held as collateral. Treasury is responsible for the safekeeping of this collateral

Code of Virginia §22.1-143 establishes the State Treasurer as the accountant of the Literary Fund

See Appendix B, Additional Statutory Authority Information, for additional statutory authority for this service area.

Service Area Customer Base

| Customer(s) | Served | Potential |
|---|-----------|-----------|
| Boards and Authorities | 5 | 5 |
| Bondholders | | |
| Executive Branch Officials, Agencies and Institutions | 108 | 108 |
| Financial Institutions Holding Virginia Public Deposits | 129 | 129 |
| Insurance Companies Conducting Business in Virginia | 1,100 | 1,100 |
| Intra-Agency Staff | 116 | 116 |
| Legislative Branch | 140 | 140 |
| Virginia Citizens | 7,500,000 | 7,500,000 |

Anticipated Changes In Service Area Customer Base

We do not anticipate changes in our customer base in the near future.

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Service Area Partners

Department of Education

Administration of the Literary Fund

Service Area Partners

Financial institutions and investment management firms

Invest and serve as custodians of state funds, including bond proceeds and debt service funds

Service Area Partners

Private sector vendors and contractors

Provide goods and services to the agency

Service Area Partners

State Corporation Commission

Administration of the collateral pledged by insurance companies doing business in Virginia

Service Area Products and Services

- Accounting and financial reporting for Commonwealth investments, bond, construction, and other debt-related funds held by the State Treasurer
- Accounting and financial reporting for various debt-issuing authorities of the Commonwealth, including the VCBA, VPBA, VPSA
- Payment of debt of the Commonwealth and related debt-issuing authorities where the State Treasurer as been designated as debt paying agent
- Accounting and financial reporting for the Local Government Investment Pool
- Accounting for the Literary Fund in accordance with the management of the Fund by the Department of Education
- Administration of the Security for Public Deposits Act on behalf of the Commonwealth Treasury Board, Virginia governments, and the financial community
- Administration and safekeeping of securities of insurance companies that are doing business in Virginia that are held as collateral to protect Virginia insurance policy holders
- Accounting and budgeting for the Department of the Treasury and the Treasury Board

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Factors Impacting Service Area Products and Services

- The issuance of tobacco securitization bonds will require Trust Services to account and provide financial reporting for an additional Commonwealth entity, the Tobacco Settlement Financing Corporation, as well as the related Endowment.
- The Governmental Accounting Standards Board (GASB) that establishes the accounting and financial reporting standards for governments continues to require more detailed accounting and reporting of debt and investment activity of governmental entities, which increases the workload of current staff as new pronouncements are issued and become effective.
- Since the passage of the Sarbanes-Oxley Act by Congress, there has been a significant increase in the demand for accounting professionals. Within the last two years it has become increasing difficult to attract and retain the services of qualified accounting staff, especially with experience in the governmental sector. We believe this trend will continue into the near future.

Anticipated Changes To Service Area Products and Services

- Accounting and Trust Services provides a significant amount of information to the Department of Accounts (DOA) for preparation of the Commonwealth Comprehensive Annual Financial Report (CAFR). Currently, there is approximately a six-month window from the end of the fiscal year until the publishing of the CAFR to meet governmental financial reporting standards. Within the financial community, there are discussions to tighten this reporting window to provide more timely annual financial data similar to reporting in the private sector. The shortening of this reporting timeframe would place a significant resource burden on Trust Services since it is very difficult to meet the current reporting deadlines and continue with routine daily operations. Any shortening of this reporting period would require additional resources to meet the new reporting deadline.

Service Area Human Resources Summary

Service Area Human Resources Overview

Human resources for this service area include 10 full-time classified accounting positions. Position titles and reporting structure can be found in Appendix B, Service Area Structure.

Service Area Full-Time Equivalent (FTE) Position Summary

| | |
|---------------------------------------|----------|
| Effective Date: | 6/1/2006 |
| Total Authorized Position level | 10 |
| Vacant Positions | 3 |
| Non-Classified (Filled)..... | 0 |
| Full-Time Classified (Filled) | 7 |
| Part-Time Classified (Filled) | 0 |
| Faculty (Filled) | 0 |
| Wage | 0 |
| Contract Employees | 0 |
| Total Human Resource Level | 7 |

Factors Impacting Service Area Human Resources

Since the passage of the Sarbanes-Oxley Act by Congress, there has been a significant increase in the demand for accounting professionals. Within the last two years it has become increasing difficult to attract and retain the services of qualified accounting staff, especially with experience in the governmental sector. We believe this trend will continue into the near future. This trend has resulted in having to pay higher starting salaries than in the past. Due to this development, the agency will need to place more emphasis on attracting and retaining its accounting professionals. One means of doing this will be to concentrate on

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providing more training and career development opportunities to staff and to provide more competitive salaries.

Anticipated Changes in Service Area Human Resources

Historically Trust Services has had a higher turnover rate than the agency average. Because the turnover rate has been high, there has been and will continue to be a strong focus on cross training of staff to ensure operations are not impacted by staff vacancies.

Service Area Financial Summary

The budget for this service area is primarily to fund personal service costs and bank safekeeping fees. The primary revenue streams that fund this service area are general fund appropriations and special revenue funds from annual administrative fees charged insurance companies that operate in Virginia and financial institutions that hold public funds under the Security for Public Deposits Act.

For the 2006-2008 biennium, Treasury will request an increase in its appropriation to fund an additional position in Accounting and Trust Services to be responsible for coordinating Treasury's year-end and annual financial reporting mandates. The Department of Accounts and the Auditor of Public Accounts request additional information each year from Treasury to meet the Commonwealth's annual financial reporting requirements. The Governmental Accounting Standards Board continues to issue financial reporting standards that impact the accounting for the Commonwealth's debt and investments. Beginning with fiscal year 2005, the accounting and financial reporting for the Tobacco Settlement Financing Corporation will be added to the service area's responsibilities. To continue to successfully meet its annual financial reporting requirements, an additional position is needed to coordinate and plan the agency's efforts in this area. The position would be responsible for accounting research, systems evaluations and modifications to meet new reporting standards and requests for information, and would act as the agency liaison to the Department of Accounts and the Auditor of Public Accounts as it relates to financial reporting issues. Also, the service area transferred the State Non-Arbitrage Program from this service area to the Banking and Investments service area and the change to the base budget (\$50,000) is also reflected below for this transfer.

| | <u>Fiscal Year 2007</u> | | <u>Fiscal Year 2008</u> | |
|---------------------------|-------------------------|------------------------|-------------------------|------------------------|
| | <u>General Fund</u> | <u>Nongeneral Fund</u> | <u>General Fund</u> | <u>Nongeneral Fund</u> |
| Base Budget | \$361,336 | \$889,971 | \$361,336 | \$889,971 |
| Changes To Base | \$70,541 | \$5,442 | \$72,367 | \$7,266 |
| SERVICE AREA TOTAL | \$431,877 | \$895,413 | \$433,703 | \$897,237 |

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Service Area Objectives, Measures, and Strategies

Objective 73213.01

Ensure that all debt obligations are paid on time.

As paying agent for a significant amount of the debt issued by the Commonwealth, the State Treasurer is responsible for the payment of debt principle and interest to holders of Virginia's bonds. To maintain its triple A bond rating and ensure bondholders are paid timely, processing the Commonwealth's debt-related financial transactions timely and accurately is one of the highest priorities of the area.

This Objective Supports the Following Agency Goals:

- Deliver statewide and agency accounting, budgeting, trust, and operational services timely and accurately while striving to improve efficiency, promote accountability, and reduce costs.
(This objective supports the agency goal to "Deliver statewide and agency accounting, budgeting, trust, and operational services timely and accurately while striving to improve efficiency, promote accountability, and reduce costs". In addition, it aligns with state objectives to be a national leader in the preservation and enhancement of our economy, to engage and inform citizens to ensure we serve their interests and to be recognized as the best managed state in the nation.)

This Objective Has The Following Measure(s):

- **Measure 73213.01.01**

Percentage of debt payment obligations that are paid on time.

Measure Type: Outcome **Measure Frequency:** Quarterly

Measure Baseline: Over the last five years, this service area has made 100% of all debt obligation payments on time.

Measure Target: Since missing a debt obligation payment has serious consequences for the Commonwealth, the target for this performance measure is 100% of all debt obligation payments will be made on time.

Measure Source and Calculation:

Data source is internal debt service schedule of payment due dates and date payments are made. Calculation is the number of debt service payments made by the due date divided by the total number of debt service payments to be made computed on a monthly basis and averaged for the quarter.

Objective 73213.01 Has the Following Strategies:

- To enhance security features, convert debt database from Access to Microsoft SQL.
- Continue cross training of staff on maintenance of the debt database and debt payment and monitoring processes to ensure adequate staff coverage.
- Expand use of debt database to allow read-only access to other service areas of Treasury so that debt information is more widely available for use.
- Ensure the Appropriation Act contains sufficient funds for payment of all debt service obligations.